

## Industrial Sector

1st Quarter 2008

### China Industrial M&A Quarterly

#### Highlights

- Alcoa and Aluminum Corp. of China acquired 12% of Rio Tinto for US\$14.1 billion

The acquisition was made a few days prior to BHP Billiton's share-swap takeover bid of Rio Tinto

- China Huaneng Group, through its subsidiary, Huaneng Power Int'l, made an offer to acquire 100% of Tuas Power for US\$3.1 billion

The proposed acquisition is a major step forward for Huaneng in its assets diversification across geographies and technologies

- HK-listed Fushan International Energy Group announced its intention to acquire Target Group for US\$1.4 billion

Target Group is the holding company of local coal mining companies in China

- Datang International Power Generation announced its intention to acquire 90% of Zhenxing Power for US\$897.4 million

Datang will execute the acquisition through its subsidiary Datang International (Hong Kong). Upon closing of the transaction, Datang will gain indirect control of Qinghai-AES Power Co Ltd and operate four power generating units at the Qinghai Zhiganglaka Hydropower Station

#### Beijing

Room 705, East Tower, Twin Tower  
B12 Jianguomenwai Avenue  
Chaoyang District, Beijing 100022  
+86 (10) 8447 7398

#### Hong Kong

Suite 3518 Jardine House  
One Connaught Place  
Central, Hong Kong  
+852 2973 5311

#### Shanghai

5F Crystal Century Tower  
567 Weihai Road, Jingan District  
Shanghai 200040, China  
+86 (21) 6288 6555

info@latitudecapital.com  
www.latitudecapital.com

## Introduction

We are pleased to present our quarterly review of the China Industrial sector M&A and private placement activities, focusing on both financial and strategic buyers/investors acquiring China assets and Chinese corporations acquiring overseas targets.

The purpose of this report is to provide a summary of notable China Industrial M&A and private placement activities in the first quarter of 2008, highlighting selected notable transactions that are relevant to venture capital, private equity, and strategic buyers/investors. Our review is broken down into the following ten Industrial sectors:

- Automotive/Transportation
- Components
- Fire, Safety & Security
- HVAC
- Industrial Controls
- Machinery & Equipment
- Materials, Chemicals & Plastics
- Energy
- Steel
- Environmental

However, during the first quarter of 2008, there were no notable transactions in the HVAC, Industrial Controls, or Environmental sectors.

## Automotive/Transportation

In the Automotive/Transportation sector, Shanghai Waigaoqiao Shipbuilding, a subsidiary of China State Shipbuilding Corporation (CSSC), acquired 65% of Shanghai Jiangnan - Changxing Shipbuilding for nearly US\$312 million. Following the transaction, CSSC's annual shipbuilding capacity will grow to 7 million deadweight tons; and the company will likely become the second largest shipbuilder in the world behind Korea's Hyundai Heavy Industry, according to media reports.

Also during the quarter, Yangfan Group, a Zhoushan-based company with annual shipbuilding capacity of 420,000 deadweight tons, received an equity investment of US\$50 million from Goldman Sachs. This is Goldman's second notable investment in China's shipbuilding sector following its first investment in November 2007 when Goldman put US\$250 million into Jiangsu Rongsheng Heavy Industries Group.

On March 31, the NASDAQ listed China Automotive Systems announced that it would invest US\$32.1 million to increase its share in Jingzhou Henglong Automotive Parts from 44.5% to 80.0%. Henglong's main customers are among China's leading automobile manufacturers, which include Chery Auto, Brilliance Auto, BYD Auto, Geely Auto and FAW Volkswagen. Henglong posted net income of US\$14 million in 2007. Through increasing its stake in Henglong, China Automotive Systems improved its 2007 fully diluted EPS from US\$0.37 to US\$0.51 even after the adjustment of the potential shares issued to Henglong.

### Selected Automotive/Transportation Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Mar 31	China Automotive Systems Inc. (NASDAQ:CAAS)	Jingzhou Henglong Automotive Parts Co., Ltd.	32.1	35.5	90.4	Develops power steering systems and components of passenger vehicle market
Mar 13	Jingjiang City Dufeng Ship Dismantle Co., Ltd., Nantong Van Industries Co., Ltd.	Jiangsu Zhongzhou Marine Equipment Co., Ltd.	7.8	80.0	9.5	Manufactures ship components and accessories
Feb 15	Zhejiang Sanhua Co Ltd (SZSE:002050)	Changzhou Ranco Four-Way Valve Co., Ltd.	5.8	75.0	7.7	Engages in the production and sale of four-way valves
Feb 8	Brembo SpA (CM:BRE)	Nanjing Yuejin Automotive Brake System Co., Ltd.	5.9	42.3	14.0	Manufactures and sells automotive brake systems and components

### Selected Automotive/Transportation Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Jan 31	Great Wall Motor Company Ltd. (SEHK:2333)	Baoding Great Wall Internal Combustion Engine Manufacturing Co., Ltd.	16.7	39.2	42.5	Engages in manufacturing and distribution of internal combustion engines and accessories for motor vehicles
Jan 29	American International Group, Inc. (NYSE:AIG)	Chongqing Lifan Industry (group) Co., Ltd.	NA	25.0	NA	Mainly engages in automobile and motorcycle manufacturing
Jan 8	Shandong Juli Company Co., Ltd. (SZSE:000880)	Chongqing Weichai Diesel Engine Works	19.4	100.0	19.4	Engages in the production and sale of diesel engines
Jan 7	Shanghai Waigaoqiao Shipbuilding Co. <sup>1</sup>	Shanghai Jiangnan - Changxing Shipbuilding Co., Ltd.	311.6	65.0	479.3	Shanghai-based shipbuilding company
Jan 4	GS Phereclus Holdings Limited <sup>2</sup>	Yangfan Group Co., Ltd.	50.0	20.0	NA	Zhoushan-based shipbuilding company

1. Subsidiary of China State Shipbuilding Corporation (CSSC)

2. Subsidiary of Goldman Sachs.

### Components

In the Components sector, Lehman Brothers and Chang'an Capital co-invested US\$30.7 million in Zhejiang Chaowei Power. Chaowei is the second largest lead acid battery manufacturer in China after the HK listed Tianneng Power. Chaowei will use the funds raised to expand production lines and prepare for its domestic IPO next year.

### Selected Components Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Mar 29	Lehman Brothers Private Equity, Chang'an Capital	Zhejiang Chaowei Power Co., Ltd.	30.7	NA	NA	Engages in the production of sealed lead acid batteries, plates for battery and battery manufacturing equipments
Jan 22	TTCM China (OTCPK:TTCH)	ShiJiaZhuang HuaTeng Technology Company	NA	100.0	NA	Engages in the design and manufacturing of IC-based smart card water-meters
Jan 13	Dongguan Huiyuan Industry (Group) Company Limited	Dongguan CDC Cable Factory	24.4	75.0	32.5	Engages in the manufacturing and sale of various wires and cables

### Fire, Safety & Security

In the Fire, Safety & Security sector, Panpan Security Industries received US\$18.1 million from a group of investors, including a local venture capital firm Botong. Panpan currently has 20%-25% market share in the household security door market in China. The company will use the funds to further strengthen its market position and prepare for its IPO in HK.

### Selected Fire, Safety & Security Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Mar 25	Zhejiang Botong Venture Capital, etc.	Panpan Security Industries Co., Ltd.	18.1	20.0	NA	Develops household security doors

Mar 18	Assa Abloy AB (OM:ASSA B)	Beijing Tianming Industrial Technology Co. Ltd.	NA	100.0	NA	Manufactures iron anti-fire doors
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### Machinery & Equipment

In the Machinery & Equipment sector, China Ping An acquired 100% of XJ Group for US\$133.3 million. With strong financial resource, Ping An intends to develop XJ Group into a leading global electricity transmission enterprise.

#### Selected Machinery & Equipment Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Mar 25	Changsha Zoomlion Heavy Industry Science & Technology Development Co. Ltd. (SZSE:000157)	Shaanxi Xin Huanggong Machinery Co., Ltd.	4.7	100.0	4.7	Engages in the production and sale of a range of machinery products
Mar 20	China Ping An Trust & Investment Company Limited	XJ Group Corporation	133.3	100.0	133.3	Manufactures electric power transmission equipment
Jan 31	Caterpillar Inc. (NYSE:CAT)	Shandong SEM Machinery Co., Ltd.	NA	100.0	NA	Manufactures and supplies wheel loaders
Jan 8	LDK Solar Co.Ltd. (NYSE:LDK)	Jiangxi Sinoma New Material Co., Ltd.	2.3	33.5	6.9	Xinyu-based crucible manufacturer

### Materials, Chemicals & Plastics

In the Materials, Chemicals & Plastics sector, Alcoa Inc. and Aluminum Corp. of China jointly acquired 12% interest in the London listed Rio Tinto PLC for US\$14 billion. Alcoa contributed US\$1.2 billion for the acquisition. According to comments made by Aluminum Corp. of China, it is the biggest foreign investment by a Chinese company so far. The acquisition followed rumors that some Chinese entity might try to block BHP Billiton's unsolicited takeover bid to Rio Tinto. However, most of that speculation had centered on China's steel industry, which has a critical interest in the world iron ore trade.

Also during this quarter, the Shenzhen listed Shenzhen Zhongjin Lingnan Nonfemet and an Indonesian company PT. ANTAM Tbk announced their intentions to jointly acquire 100% of Herald Resources, an Australian mineral resources exploration and mining company. The purchase is expected to increase the mining output of Lead and Zinc for the both investors.

#### Selected Materials, Chemicals & Plastics Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Mar 26	Roquette Frères S.A.	Guangxi Nanning Chemical Pharmaceutical Co., Ltd.	8.3	40.9	20.4	Developer of sucrose products
Mar 25	Baotou Tomorrow Technology Co., Ltd. (SHSE:600091), Shandong Taishan Energy Co., Ltd.	Inner Mongolia Ronglian Investment Development Co., Ltd.	112.5	100.0	112.5	Engages in the exploration of mineral and energy resources
Mar 25	Quay Magnesium Ltd. (ASX:QMG)	A Chinese magnesium plant	NA	49.0	NA	Engages in the production and sale of magnesium products

## Selected Materials, Chemicals &amp; Plastics Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Mar 14	Wieland-Werke AG	Wolverine Tube (Shanghai) Co. Ltd.	11.6	30.0	38.7	Manufactures and distributes copper and copper alloy tubes
Mar 8	Hunan Nonferrous Metals Corporation Limited	North American Tungsten Corp. Ltd.	19.4	9.9	196.3	Engages in the acquisition, exploration, development, mining, and milling of minerals in North America
Mar 6	Zhongjin Gold Corp., Ltd. (SHSE:600489)	Shaanxi Jiusheng Mining Investment Management Co., Ltd.	125.0	90.0	138.9	Engages in sourcing and selling mineral products
Mar 5	DSM Venturing <sup>1</sup>	Tianjin Green Bio-Science Co., Ltd (China)	20.0	NA	NA	Developer of biodegradable polymers and products
Feb 28	Datang Huayin Electric Power Co., Ltd. (SHSE:600744)	Inner Mongolia Haishen Coal Xidong Energy Development Co., Ltd.	63.8	90.0	70.8	Engages in the production and sale of coal related products
Feb 15	Mianyang Gao Xin Industrial Development (Group) Inc. (SHSE:600139)	Gansu Yangba Copper Industry Co., Ltd.	108.8	100.0	108.8	Engages in production and distribution of copper products
Feb 13	Goldman Sachs	Risun Coking Group	NA	NA	NA	Specializes in the production, processing and selling of coke and coke byproducts
Feb 5	Datong Coal Industry Co. Ltd. (SHSE:601001)	Huafu Coal Co., Zhaofu Coal Co.	94.8	80.0	118.5	Engages in the exploration and production of coal in Zhun'ge'er area of Inner Mongolia in northeast China
Feb 1	Alcoa, Inc. (NYSE:AA), Aluminum Corp. of China Ltd. (SEHK:2600)	Rio Tinto plc (LSE:RIO)	14,078.4	12.0	117,320.3	Engages in mining and processing mineral resources
Jan 31	Dezhou China United Daba Cement Co., Ltd.	Dezhou Daba, Dezhou Assets	115.3	NA	NA	Manufactures and sells cement
Jan 31	Jiangxi Wannianqing Cement Co., Ltd. (SZSE:000789)	Jiangxi Guoxing Group Dongfanghong Cement Co., Ltd.	7.4	80.0	9.3	Manufactures and sells cement
Jan 31	Jiangxi Wannianqing Cement Co., Ltd. (SZSE:000789)	Jiangxi Guoxing Group Dongfanghong Yudu Xuanyao Cement Co., Ltd.	5.7	80.0	7.1	Manufactures and sells cement
Jan 31	Xinjiang Tianshan Cement Co., Ltd. (SZSE:000877)	Akesu Tianshan Duolang Cement Limited Liability Company	13.8	37.7	36.5	Manufactures and sells cement
Jan 31	Western Mining Co. Ltd. (SHSE:601168)	China-Kinwa High Technology Co Ltd. (SHSE:600110)	63.9	3.8%	1,682.2	Developer of oil, bronze, and foil related products
Jan 30	PT. ANTAM Tbk, Shenzhen Zhongjin Lingnan Nonfemet Co.,	Herald Resources Ltd. (ASX:HER)	486.8	100.0	486.8	Engages in the exploration and evaluation of mineral properties in Australia and Southeast Asia

**Selected Materials, Chemicals & Plastics Transactions**

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
	Ltd. (SZSE:000060)					
Jan 28	Sungreen International Holdings Ltd (SEHK:8306)	Wulatezhong Qi Tianbao Mining Co., Ltd.	110.8	75.0	147.7	Engages in mining and processing of zinc, lead and sulphur in China
Jan 22	Kyungin Synthetic Corp. (KOSE:A012610)	Lianyungang Kisko Chemical	5.0	45.5%	11.0	Engages in the production and supply of dyestuff in China
Jan 14	Legacy Mining Ltd. (OTCBB:LEYM)	Miaozihe Gold Mine	NA	80.0	NA	Gold mine in Miaozihe, Henan province
Jan 9	Jinchuan Group Ltd.	Fox Resources Ltd. (ASX:FXR)	15.9	12.3%	129.1	Engages in the exploration and mining of mineral resource properties primarily in Western Australia
Jan 8	Zibo Fufeng Tongsheng Chemical Co. Ltd.	Zibo Linzi Yongliu, Neopentyl Glycol (Neo) Manufacturing Business	NA	100.0	NA	Polyol manufacturer based in Shandong
Jan 6	Jinchuan Group Ltd.	Tyler Resources Inc. (TSXV:TYS)	191.5	100.0	191.5	Engages in the acquisition, exploration, and development of mineral properties with a focus on base and precious metals in Mexico

1. Subsidiary of Royal DSM N.V

**Energy**

In the Energy sector, SinoSing Power, a subsidiary of China's biggest power producer China Huaneng Group, would acquire 100% of Singaporean Tuas Power for US\$3.1 billion. The transaction is said by media to be China's second-largest overseas acquisition so far this year. Tuas Power's power station at the western end of Singapore comprises four blocks of natural-gas-fired combined cycle plants and two units of steam plants. China Huaneng Group expects the acquisition to diversify its geographic coverage and technology applications.

Another notable transaction in the sector is Fushan International's acquisition of Target Group for US\$1.4 billion. Target Group's three coal mines are located in the Liulin Area of Shanxi Province, a geological belt rich in premium hard coking coal. Upon completion of the proposed acquisition, Fushan International will benefit from the operational know-how and supporting infrastructure of the Target Group.

On January 11, Datang International announced the acquisition of 90% interest in Zhenxing Power for US\$897.4 million. Following the transaction, Datang International would control Qinghai-AES Power and operate the 4 x 38MW hydropower generating units of Qinghai Zhiganglaka Hydropower Station.

**Selected Energy Transactions**

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Mar 26	Abterra Ltd. (SGX:H24)	Shanxi Loudong-General Nice Coking & Gas Co., Ltd.	116.2	49.9	232.8	Manufactures coke, and also produces coal gas, coke tar, crude benzene, and electricity
Mar 25	Huaneng Power International Inc. (SEHK:902)	SinoSing Power Pte Ltd.	NA	100.0	NA	Operates as a power company
Mar 24	Zhongran Investment <sup>1</sup>	Zhongyou Hua Dian	44.2	53.0%	83.3	Engages in the LPG import business and sales of petrochemical products
Mar 18	China Resources Power Holdings Co. Ltd. (SEHK:836)	Shenyang Shenhai Thermal Power Company Limited	155.6	54.1	287.4	Operates a power plant in Shenyang City

## Selected Energy Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Mar 14	SinoSing Power Pte Ltd. <sup>2</sup>	Tuas Power Ltd.	3,066.6	100.0	3,066.6	Generates, trades, and supplies electricity generated by oil and natural gas fired stations
Mar 10	Baring Private Equity, Chengwei Ventures	China CBM Investment Holdings Limited	88.0	NA	NA	Engages in exploration, development and production of coalbed methane in China
Mar 6	Zhengzhou Gas Co. Ltd. (SEHK:3928)	Pingdingshan City Gas Corporation	4.2	27.0	15.7	Engages in the distribution and sale of natural gas in Pingdingshan City
Feb 20	Honbridge Holdings Limited [SEHK:8137]	Shandong Jining Kailun Photovoltaic Materials Limited	NA	100.0	NA	Engages in the research, development, refining and production of high purity silicon raw materials and products for solar photovoltaic cell in China
Feb 13	Huadian Power International Corporation Limited (SEHK:1071)	Hebei Huadian Shijiazhuang Thermal Power Co., Ltd.	163.9	82.0	199.9	Engages in generation of coal-fired power
Feb 2	Sinochem Petroleum Limited	SOCO Yemen Pty Limited	465.0	100.0	465.0	Operates in the oil and gas exploration business in Australia
Jan 31	China Power New Energy Development Company Limited (SEHK:735)	Dongguan Dong Cheng Dong Xin Heat and Power Co., Ltd.	41.4	40.0	103.5	Engages in the operation of a natural gas and oil power generating plant in Dongguan
Jan 31	AEI	Beijing Macrolink Gas Ltd.	NA	70.0	NA	Engages in construction of gas pipelines and the distribution of piped gas in China
Jan 31	AEI	Tongda Energy Pte. Ltd.	NA	100.0	NA	Constructs urban gas pipelines, sells and distributes piped gas, and operates auto-filling stations in Mainland China
Jan 31	Fushan International Energy Group Ltd. (SEHK:639)	Target Group	1,384.6	100.0	1,384.6	Through its subsidiaries, engages in coking coal mining and processing business
Jan 11	Datang International (Hong Kong) Limited <sup>3</sup>	Zhenxing Power Co., Ltd.	897.4	90.0	997.2	Local electricity power
Jan 10	CDH China Management Co., Ltd., Goldman Sachs (Asia) Ltd.	Himin Solar Energy Group Co., Ltd.	100.0	NA	NA	Engages in the production of solar water heaters in Dezhou, Shandong province
Jan 10	Wing Hing International (Holdings) Limited (SEHK:621)	Inner Mongolia Meng Wei Biodiesel and Environmental Protection Products Co., Ltd.	26.2	55.0	47.7	Engages in the production and sale of biodiesel and environment-friendly fuel products

1. Subsidiary of China Gas Holdings Limited [SEHK: 384]

2. Subsidiary of China Huaneng Group

3. Subsidiary of Datang International Power Generation Co., Ltd. [SEHK: 991]

## Steel

In the Steel sector, the London listed Evraz Group announced its plan to acquire 10% of Delong Holdings for US\$154.5 million. Evras also has the option to buy additional 41.1% in Delong within six months after the completion of its initial 10% share capital purchase. If the call option is exercised, the maximum consideration payable by Evraz Group will reach approximately US\$1.5 billion, assuming full acceptance of the mandatory offer and the exercise of all outstanding warrants.

In addition, China's largest precise copper tube manufacturer Golden Dragon raised US\$90 million in pre-IPO funds from three institutional investors including Standard Chartered Private Equity, Lehman Brothers, and Goldman Sachs. In August 2006, Golden Dragon failed in its US\$70 million takeover bid for the US listed copper tube manufacturer Wolverine. It is reported Golden Dragon is now turning to domestic A-Share IPO this year, and it is also reported that it has assigned Standard Chartered to identify an underwriter for the IPO.

#### Selected Steel Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Mar 4	Standard Chartered Private Equity, Lehman Brothers, Goldman Sachs	Golden Dragon Precise Copper Tube Group Inc.	90.0	25.0	360.0	China's biggest copper tube producer
Feb 18	Evrax Group S.A. (LSE:EVR)	Delong Holdings Limited (SGX:B1N)	154.5	10.0	1,503.1	Engages in the manufacturing and selling of hot-rolled steel coils in China
Jan 3	Jiangsu Shagang Group Co., Ltd.	Jiangsu Yonggang Group Co., Ltd.	NA	25.0	NA	Local steel company

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## Beijing

Room 705, East Tower, Twin Tower  
B12 Jianguomenwai Avenue  
Chaoyang District  
Beijing 100022, China  
Tel +86 (10) 8447 7398  
Fax +86 (10) 8447 7396

## Hong Kong

Suite 3518 Jardine House  
One Connaught Place  
Central, Hong Kong  
Tel +852 2973 5311  
Fax +852 2295 3979

## Shanghai

5F Crystal Century Tower  
567 Weihai Road, Jingan District  
Shanghai 200040, China  
Tel +86 (21) 6288 6555  
Fax +86 (21) 6288 6585

[info@latitudecapital.com](mailto:info@latitudecapital.com)

[www.latitudecapital.com](http://www.latitudecapital.com)

 **LATITUDE**  
CAPITAL GROUP